

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Iron County Housing Commission</b>	County <b>Iron</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>4/19/05</b>	Date Accountant Report Submitted to State: <b>5/20/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

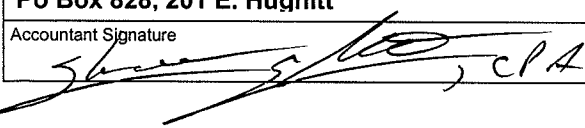
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>Po Box 828, 201 E. Hughitt</b>		City <b>Iron Mountain</b>	State <b>MI</b>
		ZIP <b>49801</b>	
Accountant Signature 		Date <b>5-20-05</b>	

**IRON COUNTY HOUSING COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

(with supplemental information)

For the Year Ended September 30, 2004

## IRON COUNTY HOUSING COMMISSION

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**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Iron County Housing Commission as of and for the year ended September 30, 2004 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Iron County Housing Commission as of September 30, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated April 19, 2005 on our consideration of the Iron County Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and Governmental Accounting Standards Board Statement No. 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Iron County Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

April 19, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Iron County Housing Commission's financial performance provides an overview of the financial activities for the year ended September 30, 2004. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The Commission's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the entire Commission were reported at \$3,174,843.
- During the year, the Commission's operating revenues totaled \$1,396,373, or 99.7% of total revenues, while operating expenses totaled \$1,488,312 or 100% of total expenses.

### USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

### REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

## REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

## THE COMMISSION AS A WHOLE

The Commission's combined net assets at September 30, 2004 decreased \$(88,811) from September 30, 2003.

**Table 1**

### NET ASSETS

Assets	
Current and other assets	\$ 311,269
Capital assets (net)	<u>3,003,865</u>
Total assets	<u>3,315,134</u>
Liabilities	
Current and other liabilities	<u>140,291</u>
Total liabilities	<u>140,291</u>
Net Assets	
Invested in capital assets, net of related debt	3,003,865
Unrestricted	<u>170,978</u>
Net Assets	<u>\$3,174,843</u>

Net assets of the Commission stood at \$3,174,843. Unrestricted net business assets were \$170,978. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

**Table 2**

**CHANGE IN NET ASSETS**

<b>Revenues:</b>	
Program revenues:	
Charges for services	\$ 170,718
Program grants & subsidies	1,216,802
General revenues:	
Other income	8,853
Unrestricted investment earnings	<u>3,241</u>
Total revenues	1,399,614
<b>Program Expenses:</b>	
Operating expenses	<u>1,488,425</u>
Change in net assets	(88,811)
Net assets – beginning of period	<u>3,263,654</u>
Net assets – end of period	<u>\$3,174,843</u>

**BUSINESS-TYPE ACTIVITIES**

Revenues for the Commission totaled \$1,399,614. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had also increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal 2004, the Commission had \$7,710,499 invested in a variety of capital assets including land, equipment and buildings as follows:

**Table 3**

#### **CAPITAL ASSETS AT SEPTEMBER 30, 2004 Business – Type Activity**

Land and improvements	\$1,142,757
Buildings and improvements	6,288,414
Equipment	247,647
Construction-in-progress	<u>31,681</u>
Total cost	7,710,499
Less accumulated depreciation	<u>(4,706,634)</u>
<b>NET CAPITAL ASSETS</b>	<b><u>\$3,003,865</u></b>

The Commission invested \$208,674 in capital assets during the year ended September 30, 2004.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2004/2005. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2004/2005 budget process.

## **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Steve Gagne, at 210 N. Third, Crystal Falls, Michigan 49920, or call 906-875-6060.

**IRON COUNTY HOUSING COMMISSION**

**STATEMENT OF NET ASSETS  
Proprietary Fund**

September 30, 2004

**CURRENT ASSETS:**

Cash and equivalents	\$ 146,716
Accounts receivable	29,173
Investments	113,775
Prepaid expenses	<u>21,605</u>

**TOTAL CURRENT ASSETS** 311,269

**NONCURRENT ASSETS:**

Capital assets	7,710,499
Less accumulated depreciation	<u>(4,706,634)</u>

**NET CAPITAL ASSETS** 3,003,865

**TOTAL ASSETS** \$ 3,315,134

**CURRENT LIABILITIES:**

Accounts payable	\$ 54,701
Accrued liabilities	<u>62,359</u>

**TOTAL CURRENT LIABILITIES** 117,060

**NONCURRENT LIABILITIES** 23,231

**TOTAL LIABILITIES** 140,291

**NET ASSETS:**

Investment in capital assets, net of related debt	3,003,865
Unrestricted net assets	<u>170,978</u>

**NET ASSETS** \$ 3,174,843

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The accompanying notes to financial statements are an integral part of this statement.

**IRON COUNTY HOUSING COMMISSION**

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Public Housing	\$ 1,488,425	\$ 170,718	\$ 1,216,802	\$ -
				\$ (100,905)
General revenues:				
Unrestricted investment earnings				3,241
Other				8,853
Total general revenues				12,094
Change in net assets				(88,811)
NET ASSETS, beginning of year				3,263,654
NET ASSETS, end of year				\$ 3,174,843

The accompanying notes to the financial statements are an integral part of this statement.

**IRON COUNTY HOUSING COMMISSION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE  
IN NET ASSETS  
Proprietary Fund**

For the Year Ended September 30, 2004

OPERATING REVENUES:

Tenant revenue	\$ 170,718
Program grants-subsidies	1,216,802
Other income	<u>8,853</u>

TOTAL OPERATING REVENUES	<u>1,396,373</u>
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OPERATING EXPENSES:

Administration	294,429
Tenant services	5,299
Utilities	112,583
Maintenance	188,031
General	32,278
Other operating	7,131
Housing assistance payments	569,855
Depreciation	<u>278,706</u>

TOTAL OPERATING EXPENSES	<u>1,488,312</u>
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OPERATING (LOSS)	<u>(91,939)</u>
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OTHER INCOME (EXPENSES):

Interest income	3,241
Loss on sale of fixed assets	<u>(113)</u>

TOTAL OTHER INCOME	<u>3,128</u>
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CHANGE IN NET ASSETS	(88,811)
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NET ASSETS, BEGINNING OF YEAR	<u>3,263,654</u>
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NET ASSETS, END OF YEAR	<u>\$ 3,174,843</u>
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& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

# IRON COUNTY HOUSING COMMISSION

## **STATEMENT OF CASH FLOWS** **Proprietary Fund**

For the Year Ended September 30, 2004

### OPERATING ACTIVITIES:

Cash received from customers	\$ 170,717
Cash received from grants and subsidies	1,257,528
Cash payments to suppliers for goods and services	(916,612)
Cash payments for wages and related benefits	(285,311)
Cash payments for payment in lieu of taxes	(5,664)
Other receipts	<u>9,067</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>229,725</u>
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### CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	<u>(208,674)</u>
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NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(208,674)</u>
----------------------------------------------------------------	------------------

### INVESTING ACTIVITIES:

Purchase of investments	(2,775)
Investment income	<u>4,209</u>

NET PROVIDED FROM INVESTING ACTIVITIES	<u>1,434</u>
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NET INCREASE IN CASH AND EQUIVALENTS	22,485
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>124,231</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 146,716</u>
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### RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (91,939)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	278,706
Changes in assets and liabilities:	
Decrease (Increase) in receivables	40,939
Decrease (Increase) in prepaid expenses	38
Increase (Decrease) in accounts payable	(17,847)
Increase (Decrease) in accrued liabilities	<u>19,828</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 229,725</u>
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The accompanying notes to financial statements are an integral part of this statement.



## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **THE REPORTING ENTITY**

The Iron County Housing Commission (Commission) was formed under the criteria established for low income housing programs by the United States Department of Housing and Urban Development. The Commission operates under a Board of Commissioners appointed by the County Board.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

##### **Component Unit**

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *"The Financial Reporting Entity"*.

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Iron County Housing Commission nor is the Commission a component unit of another entity.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

##### **BASIS OF PRESENTATION**

During the year the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

##### **Government-Wide Financial Statements:**

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **BASIS OF PRESENTATION (Continued)**

###### **Proprietary Fund**

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

###### **Measurement Focus:**

The government-wide Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

###### **Basis of Accounting:**

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



## IRON COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.

- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation



## IRON COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

##### REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

##### OTHER SIGNIFICANT ACCOUNTING POLICIES

###### Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

###### Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on October 1<sup>st</sup>. The operating budget includes proposed expenses and the means of financing them. Prior to September 30<sup>th</sup>, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30<sup>th</sup>.

# IRON COUNTY HOUSING COMMISSION

## **NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

(Continued)

### **NOTE B - CASH AND INVESTMENTS**

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

#### **CASH AND EQUIVALENTS**

Cash and equivalents consisted of:

Petty cash	\$ 25
Cash in checking	94,704
Money markets	<u>51,987</u>
 TOTAL	 <u>\$146,716</u>

The Commission held cash and equivalents which were uninsured and unsecured in the amount of \$56,695 at September 30, 2004.

Cash and equivalents are categorized as follows:

Category 1 – Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

	<u>Category</u>			<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Petty cash	\$ 25	\$ -	\$ -	\$ -
Checking account	94,704	-	-	104,708
Money markets	<u>51,987</u>	<u>-</u>	<u>-</u>	<u>51,987</u>
 TOTAL	 <u>\$146,716</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$156,695</u>



## IRON COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

(Continued)

#### **NOTE B - CASH AND INVESTMENTS(Continued)**

##### STATUTORY AUTHORITY

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperation's act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.



# IRON COUNTY HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

### **NOTE B - CASH AND INVESTMENTS (Continued)**

#### INVESTMENTS

Investments are stated at market value.

Investments consisted of a certificates of deposit and were in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificate of deposit	<u>\$113,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$113,775</u>

The certificate of deposit was insured up to \$100,000. The remaining amount of \$13,775 was uninsured and unsecured.

### **NOTE C - CAPITAL ASSETS**

A summary of capital assets as of September 30, 2004 is as follows:

	<u>Balance</u> <u>10-1-03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9-30-04</u>
Land and improvements	\$ 1,109,734	\$ 33,023	\$ -	\$ 1,142,757
Building & improvements	5,969,978	318,436	-	6,288,414
Equipment	244,538	3,324	(215)	247,647
Construction in progress	<u>177,790</u>	<u>204,397</u>	<u>(350,506)</u>	<u>31,681</u>
	7,502,040	\$ <u>559,180</u>	\$ <u>(350,721)</u>	7,710,499
Accumulated depreciation	<u>(4,428,030)</u>	\$ <u>(278,706)</u>	\$ <u>(102)</u>	<u>(4,706,634)</u>
Net capital assets	<u>\$ 3,074,010</u>			\$ <u>3,003,865</u>



## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

(Continued)

#### **NOTE D - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

#### **NOTE E - USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **NOTE F - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended September 30, 2004 totaled \$1,396,373 of which \$1,216,802 or 87.1% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

#### **NOTE G- PENSION PLAN**

Description of Plan and Plan Assets - The Housing Commission participates along with the County in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS); administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 1.7 percent times the final average compensation (FAC). The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2003.



## IRON COUNTY HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

September 30, 2004

(Continued)

#### NOTE G— PENSION PLAN (Continued)

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.3333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2003 is as follows: Housing Commission 7.65%

**Annual Pension Cost** - During the fiscal year ended September 30, 2004, the County's contributions totaling \$114,590 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### GASB 25 INFORMATION (AS OF 12/31/03)

Actuarial Accrued Liability	
Retired and beneficiaries currently receiving benefits	\$ 947,516
Terminated employees not receiving benefits	452,243
Current employees:	
Accumulated employee contributions including allocated investment income	3,686
Employer financed	<u>1,290,233</u>
Total Actuarial Accrued Liability	2,693,678
Net Assets Available for Benefits at Actuarial Value (Market Value is \$1,680,686)	<u>1,753,319</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 940,359</u>

**IRON COUNTY HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2004

(Continued)

**NOTE G— PENSION PLAN (Continued)**

**GASB 27 INFORMATION (AS OF 12/31/03)**

Fiscal Year Beginning	January 1, 2004
Annual Required Contribution (ARC)	\$129,072
Amortization Factor Used	0.053632



**SUPPLEMENTAL  
INFORMATION**





ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

September 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS:</b>					
Cash:					
111	Cash - unrestricted	\$ 72,264	\$ 50,233	\$ -	\$ 122,497
114	Cash - tenant security deposits	24,219	-	-	24,219
100	Total cash	96,483	50,233	-	146,716
Accounts and notes receivables:					
122	Accounts receivable- HUD other projects	-	-	27,707	27,707
125	Accounts receivable- miscellaneous	46	-	-	46
126	Accounts receivable- tenants - dwelling rents	104	-	-	104
126.1	Allowance for doubtful account - dwelling rents	(103)	-	-	(103)
129	Accrued interest receivable	1,419	-	-	1,419
120	Total receivables, net of allowances for doubtful accounts	1,466	-	27,707	29,173
Other assets:					
131	Investments - unrestricted	113,775	-	-	113,775
142	Prepaid expenses	21,430	175	-	21,605
144	Interprogram due from	30,080	-	-	30,080
150	TOTAL CURRENT ASSETS	263,234	50,408	27,707	341,349

See accompanying notes to financial statements



**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

## IRON COUNTY HOUSING COMMISSION

### **FINANCIAL DATA SCHEDULE Proprietary Fund**

September 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>NONCURRENT ASSETS:</b>					
Fixed assets:					
161	Land	364,852	-	-	364,852
162	Buildings	5,969,978	-	318,436	6,288,414
163	Furniture, equipment & machinery - dwellings	97,410	-	-	97,410
164	Furniture, equipment & machinery - administration	147,708	2,530	-	150,238
165	Leasehold improvements	745,834	-	32,070	777,904
166	Accumulated depreciation	(4,697,185)	(1,054)	(8,395)	(4,706,634)
167	Construction in progress	-	-	31,681	31,681
160	Total fixed assets, net of accumulated depreciation	2,628,597	1,476	373,792	3,003,865
180	<b>TOTAL NONCURRENT ASSETS</b>	2,628,597	1,476	373,792	3,003,865
190	<b>TOTAL ASSETS</b>	\$ 2,891,831	\$ 51,884	\$ 401,499	\$ 3,345,214

See accompanying notes to financial statements



**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

## IRON COUNTY HOUSING COMMISSION

### **FINANCIAL DATA SCHEDULE Proprietary Fund**

September 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
312	Accounts payable ≤ 90 days	\$ 49,290	\$ 5,411	\$ -	\$ 54,701
321	Accrued wages / payroll taxes	6,861	-	-	6,861
322	Accrued compensated absences - current portion	4,482	1,387	-	5,869
331	Accounts payable - HUD PHA programs	-	18,346	-	18,346
333	Accounts payable - other government	4,317	-	-	4,317
341	Tenant security deposits	22,935	-	-	22,935
342	Deferred revenues	4,031	-	-	4,031
347	Interprogram due to	-	2,373	27,707	30,080
310	<b>TOTAL CURRENT LIABILITIES</b>	<u>91,916</u>	<u>27,517</u>	<u>27,707</u>	<u>147,140</u>
354	Accrued compensated absences - non current	15,597	7,634	-	23,231
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<u>15,597</u>	<u>7,634</u>	<u>-</u>	<u>23,231</u>
300	<b>TOTAL LIABILITIES</b>	<u>107,513</u>	<u>35,151</u>	<u>27,707</u>	<u>170,371</u>

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

## IRON COUNTY HOUSING COMMISSION

### FINANCIAL DATA SCHEDULE Proprietary Fund

September 30, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>EQUITY</u>					
Contributed Capital:					
508.1	Investment in capital assets, net of related debt	2,628,597	1,476	373,792	3,003,865
512.1	Unrestricted net assets	155,721	15,257	-	170,978
513	TOTAL EQUITY	2,784,318	16,733	373,792	3,174,843
600	TOTAL LIABILITIES AND EQUITY	\$ 2,891,831	\$ 51,884	\$ 401,499	\$ 3,345,214

See accompanying notes to financial statements



ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

## IRON COUNTY HOUSING COMMISSION

### FINANCIAL DATA SCHEDULE Proprietary Fund

For the Year Ended September 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>					
703	Net tenant rental revenue	\$ 160,253	\$ -	\$ -	\$ 160,253
704	Tenant revenue - other	10,465	-	-	10,465
705	Total tenant revenue	170,718	-	-	170,718
706	HUD PHA grants	286,608	650,184	75,613	1,012,405
706.1	Capital grants	-	-	204,397	204,397
711	Investment income - unrestricted	2,974	267	-	3,241
715	Other revenue	8,853	-	-	8,853
716	Gain (loss) on sale of fixed assets	(113)	-	-	(113)
700	TOTAL REVENUES	469,040	650,451	280,010	1,399,501
<u>EXPENSES</u>					
Administrative:					
911	Administrative salaries	78,745	25,061	-	103,806
912	Auditing fees	3,200	300	-	3,500
914	Compensated absences	1,297	1,254	-	2,551
915	Employee benefit contributions- administrative	39,594	10,327	-	49,921
916	Other operating- administrative	89,693	44,958	-	134,651
	Total Administrative	212,529	81,900	-	294,429

See accompanying notes to financial statements

**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended September 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant services:					
924	Tenant services - other	5,299	-	-	5,299
Utilities:					
931	Water	42,111	-	-	42,111
932	Electricity	32,663	-	-	32,663
933	Gas	23,216	-	-	23,216
934	Fuel	14,593	-	-	14,593
	Total Utilities	112,583	-	-	112,583
Maintenance:					
941	Ordinary maintenance and operations - labor	85,672	-	-	85,672
942	Ordinary maintenance and operations - materials & other	28,424	-	-	28,424
943	Ordinary maintenance and operations - contract costs	24,592	-	-	24,592
945	Employee benefit contributions- ordinary maintenance	49,343	-	-	49,343
	Total Maintenance	188,031	-	-	188,031
General expenses:					
961	Insurance premiums	27,360	-	-	27,360

See accompanying notes to financial statements



**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

## IRON COUNTY HOUSING COMMISSION

### **FINANCIAL DATA SCHEDULE Proprietary Fund**

For the Year Ended September 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
962	Other general expenses	-	766	-	766
963	Payment in lieu of taxes	4,317	-	-	4,317
964	Bad debt - tenant rent	(165)	-	-	(165)
	Total General Expenses	31,512	766	-	32,278
969	TOTAL OPERATING EXPENSES	549,954	82,666	-	632,620
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(80,914)	567,785	280,010	766,881
971	Extraordinary maintenance	7,131	-	-	7,131
973	Housing assistance payments	-	569,855	-	569,855
974	Depreciation expense	269,805	506	8,395	278,706
900	TOTAL EXPENSES	826,890	653,027	8,395	1,488,312
	Other financing sources (uses):				
1001	Operating transfers in	75,613	-	-	75,613
1002	Operating transfers out	-	-	(75,613)	(75,613)
1010	Total other financing sources (uses)	75,613	-	(75,613)	-

See accompanying notes to financial statements

**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

For the Year Ended September 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (282,237)	\$ (2,576)	\$ 196,002	\$ (88,811)
MEMO account information					
1103	Beginning equity	\$ 2,894,920	\$ 21,672	\$ 351,490	\$ 3,268,082
1104	Prior Period Adjustments, Equity Transfers	\$ 171,635	\$ (2,363)	\$ (173,700)	\$ (4,428)
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ 664,651	\$ -	\$ 664,651
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ 17,744	\$ -	\$ 17,744
1116	Total Annual Contributions Available	\$ -	\$ 682,395	\$ -	\$ 682,395
1120	Unit months available	1,476	2,028	-	3,504
1121	Number of unit months leased	1,447	2,028	-	3,475

See accompanying notes to financial statements



**IRON COUNTY HOUSING COMMISSION**

**FEDERAL AUDIT REPORTS**

For the Year Ended September 30, 2004

## IRON COUNTY HOUSING COMMISSION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
"GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

We have audited the financial statements of the business-type activities of the Iron County Housing Commission, as of and for the year ended September 30, 2004, which collectively comprise the Iron County Housing Commission's basic financial statements and have issued our report thereon dated April 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iron County Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Iron County Housing Commission, in a separate letter dated April 19, 2005.

Compliance

As part of obtaining reasonable assurance about whether the Iron County Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards". However, we noted certain immaterial instances of noncompliance that we have reported to management of the Iron County Housing Commission in a separate letter dated April 19, 2005.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson, Tackman & Co., P.C.*

ANDERSON, TACKMAN & COMPANY, P.L.C.  
Certified Public Accountants  
Iron Mountain, Michigan

April 19, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

Compliance

We have audited the compliance of Iron County Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended September 30, 2004. Iron County Housing Commission's major federal programs are identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Iron County Housing Commission's management. Our responsibility is to express an opinion on Iron County Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Iron County Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Iron County Housing Commission's compliance with those requirements.

As described in item B in the accompanying schedule of findings and questioned costs, Iron County Housing Commission did not comply with requirements that are applicable to its Section 8 Rental Voucher Program. Compliance with such requirements is necessary, in our opinion, for Iron County Housing Commission to comply with requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Iron County Housing Commission did not comply, in all material respects, with the requirements referred to above that are applicable to the Section 8 Rental Voucher Program. Also, in our opinion, Iron County Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended September 30, 2004.



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

Internal Control Over Compliance

The management of Iron County Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Iron County Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Iron County Housing Commission's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item B.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are material weaknesses.

This report is intended solely for the information of the Board of Commissioners, management, the U.S. Department of Housing and Urban Development, and other Federal audit agencies.

*Anderson Tackman & Co. PLLC*

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants

Iron Mountain, Michigan  
April 19, 2005

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



# IRON COUNTY HOUSING COMMISSION

Year End: September 30, 2004

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expended as of 9-30-03</u>	<u>9-30-04 Federal Expenditures</u>
Operating Subsidy	14.850	<u>286,608</u>	<u>-</u>	\$ <u>286,608</u>
Section 8 Rental Voucher	14.871	<u>650,184</u>	<u>-</u>	<u>650,184</u>
Capital Funding	14.872			
501-02		219,305	199,192	20,113
501-03		175,185	22,459	152,726
502-03		34,914	-	34,914
501-04		<u>202,882</u>	<u>-</u>	<u>72,257</u>
		<u>632,286</u>	<u>221,651</u>	<u>280,010</u>
Total Department of Housing and Urban Development				<u>\$1,216,802</u>
TOTAL FEDERAL EXPENDITURES				<u>\$1,216,802</u>

See accompanying notes to the schedule of expenditures of federal awards.



**IRON COUNTY HOUSING COMMISSION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended September 30, 2004

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Iron County Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**NOTE B - COST REPORTS**

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.



## IRON COUNTY HOUSING COMMISSION

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended September 30, 2004

#### **A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Iron County Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Iron County Housing Commission.
4. There were reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Iron County Housing Commission expresses a qualified opinion.
6. There were audit findings relative to the major federal award programs for the Iron County Housing Commission.
7. The programs tested as major programs included:
  - A. Housing Choice Vouchers – CFDA 14.872
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Iron County Housing Commission was determined to be a low-risk auditee.

#### **B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

##### **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

1. Section 8 Rental Voucher Program - CFDA No. 14.871; Grant Period - Year ended September 30, 2004.

##### **Reportable Condition:**

Iron County Housing Commission did not perform the following compliance requirements of the grant:

- a. Housing Quality Standard (HQS) Inspections– The Iron County Housing Commission did not perform HQS inspections as required.



**IRON COUNTY HOUSING COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended September 30, 2004

(Continued)

**B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT – (Continued)**

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)**

There were files reviewed that did not contain documentation that follow-up inspections of failed units were completed in addition to follow-up inspections not always being completed within the 30 day requirement.

**Recommendations:**

Iron County Housing Commission should formalize a system for complying with all the specific requirements of the Section 8 Rental Voucher Program.

**Statement of Condition:**

Iron County Housing Commission did not establish a system to monitor its compliance with the specific requirements of the Section 8 Rental Voucher Program.

**Criteria:**

As a recipient of federal funds, Iron County Housing Commission is required to comply with the grant requirements of the Section 8 Rental Voucher Program.

**Effect of Condition:**

Expenditures under the program may be disallowed.

**Cause of Condition:**

Iron County Housing Commission' oversight of reviewing program requirements.

**Response:**

We concur with the auditors' recommendation. A system for monitoring and verifying compliance with the program requirements will be performed.

**C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

1. There were no prior findings or questioned costs.





**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

April 19, 2005

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Iron County Housing Commission for the year ended September 30, 2004, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated April 19, 2005, on the financial statements of the Iron County Housing Commission.

1. During the review of disbursements it was noted that employee expense reimbursements were not signed-off by the Executive Director.

Recommendation

The Commission should have policies and procedures in place that requires the Executive Director to sign-off on all employee expense reimbursements. The Executive Director should be reviewing and authorizing each employee expense reimbursement requests each month. An employee's expense reimbursement should always be reviewed and authorized by a responsible individual.

2. During the review of cash and investments it was noted that although the Commission had depository agreements in place with the banks it does business with, the Commission's funds were not fully collateralized as required by HUD.

Recommendation

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. Although the Commission had depository agreements signed with each of its banks, it did not follow-up with them to verify that they had those funds in excess of \$100,000 insured. At September 30, 2004, the Commission had funds in excess of insured amounts totaling \$70,470. The Commission should require its banks to provide documentation of collateral at a minimum on a quarterly basis. It is imperative that the Commission monitor its cash and investments continuously to verify that the collateral provided by the banks is adequate throughout the year.

3. It was noted during the audit that there were records stored in several locations from years beyond what HUD requires.

Recommendation

The Commission should review HUD's disposition schedule and purge its old records. Once all of the old records have been disposed and destroyed, the Commission should perform this process at least annually so as to maintain only those files as required.

4. During the review of tenant files it was noted that most of the paperwork in each file was loose and not attached to the folder. It was also noted that the process of calculating tenant rents was being performed twice, once manually and the other time through the tenant based software.

Recommendation

The Commission should take steps to attach all necessary documents in each tenant's file so as to avoid paperwork from being misplaced or lost. It is important that all documentation related to each tenant be placed and attached in the appropriate folder.

Iron County Housing Commission

April 19, 2005

Page 3

Additionally, the Commission should consider only performing the task of calculating tenant rents only once. It should consider not performing the calculation manually and use the tenant based software it has for this process. Eliminating the duplication of this process would afford the staff less time re-certifying tenants and use their time for other matters.

5. It was noted during the audit that the Commission had issued Section 8 Vouchers in excess of the amounts allocated 9 out of 12 months.

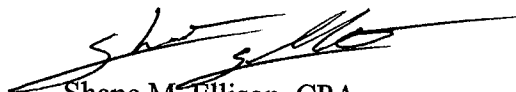
Recommendation

The Implementation of the Consolidated Appropriations Act (HR 4818-H Rept 108-792) outlined in HUD Notice 2005-1 prohibits the over-leasing of Section 8 Vouchers. The Commission should not re-new any Section 8 Vouchers until the number of vouchers issued is equal to the number of vouchers allowed.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



Shane M. Ellison, CPA  
Principal